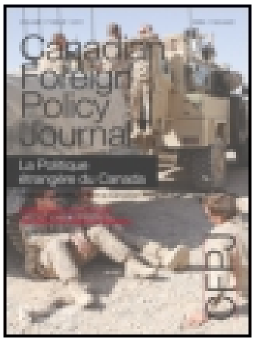

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Hewers of wood and drawers of water 2.0: how American and Chinese economic nationalism influence Canadian trade policy in the twenty-first century

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ABSTRACT

While specific events and personalities have disrupted bilateral relations between Canada and its two largest trade partners of the United States and China, long-term challenges remain at the core of Canada's future trade relations with each. Under Presidents Trump and Xi, the United States and China respectively are pursuing nationalist economic agendas that seek to privilege domestic production while reducing reliance on imports. This paper analyzes the likely impacts of America First and Made in China 2025 strategies on Canada's own Supercluster plan for economic growth and export success. Significant overlaps in sectoral focus between all three strategies suggest that Canada faces stiff competition. The paper then considers whether changing geopolitical conditions create an impetus for Canada to revisit its shift away from prioritizing growth in natural resource sectors, exploring the example of rare earths and their importance for supply chains in the new economy.

RÉSUMÉ

Alors que des événements et des personnalités spécifiques ont perturbé les relations bilatérales entre le Canada et ses deux principaux partenaires commerciaux, les États-Unis et la Chine, des défis à long terme restent présents au cœur des futures relations commerciales du Canada avec chacun d'eux. Sous les Présidents Trump et Xi, les États-Unis et la Chine mènent des programmes économiques nationalistes qui cherchent à privilégier la production nationale tout en réduisant la dépendance aux importations. Cet article analyse les impacts probables des stratégies « America First » et « Made in China 2025 » sur le plan de la croissance économique et de la réussite de l'exportation des « Supergrappes » canadiennes. Des chevauchements significatifs entre les trois stratégies en matière de focus sectoriel suggèrent que le Canada est confronté à une forte concurrence. Ensuite, l'article évalue si l'évolution des conditions géopolitiques incite le Canada à s'écarter de sa décision de ne plus accorder la priorité à la croissance des secteurs des ressources naturelles, en explorant l'exemple des terres rares et leur importance pour les chaînes d'approvisionnement dans la nouvelle économie.

KEYWORDS
Canada-United States relations; Canada-China relations; economic nationalism; protectionism; Canadian trade policy

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Introduction

With 75% of its exports bound for the United States (US), Canada remains deeply dependent on its trading relationship with its southern neighbour. As has been written about extensively, aggressive unilateralism (Bhagwati, 1992) under the Trump administration resulted in two tumultuous years of negative bilateral relations between the two countries, and shook Canada's confidence in its southern neighbour. A nasty NAFTA renegotiation, accompanied by US national security tariffs on Canadian steel and aluminum imports, threatened Canada's economy and jolted Canada into pursuing new trade relationships (Lester & Manak, 2018; Lilly, 2019).

Yet long before Trump's election, Canadian dependence on the US was acknowledged as a liability for the smaller trading partner. Unfortunately for Canada, entering new markets takes time and effort. In addition, the gravity model of international trade is robust, and Canada's distance (both geographic and cultural) from Asia will continue to make exports to those fast-growing markets challenging (Jacks, 2014; Lilly, 2019). For example, more than half of all trade in Asia is already intra-regional (Tonby, Woetzel, Choi, Seong, & Wang, 2019) and Canada has had difficulty making inroads with Asia's two largest economies of China and India.

Growing trade with China became a focus of successive Canadian governments for over two decades. However, efforts were uneven and a series of bilateral tensions over foreign policy matters have undermined progress. The Liberal government under Justin Trudeau made an intensive push to broaden trade relations with China early in its mandate, but efforts to formally launch free-trade negotiations were abandoned over mismatched goals (Lilly, 2018). Bilateral relations were subsequently frozen when Canada arrested a Huawei executive in 2018 in compliance with extradition obligations to the US, and China retaliated by detaining two Canadian citizens. Few expect bilateral relations to normalize until the detainee cases are resolved on both sides.

While specific events and personalities have disrupted bilateral relations between Canada and the world's two largest economies, long-term challenges remain at the core of Canada's future trade relations with them. Specifically, both the US and China have increasingly pursued their own nationalist economic agendas over the past several years. In 2015, China launched its own *Made In China 2025* strategy, geared to privileging local producers over foreign exports. Throughout his presidential campaign and upon his inauguration in 2017, President Trump has promoted protectionism via the *America First* concept, which also focuses on privileging domestic production and reducing reliance on imports. The Chinese and American campaigns are quite different, but both share a common goal of leveraging huge internal markets and populations to encourage domestically created and consumed goods and innovations. The explicit purpose is mercantilist: to become less dependent on imports for success.

How will such strategies intersect with Canada's own priorities for trade, both with those countries and with other countries in their gravitational orbits? Will Canada find itself competing for exports with these much larger economies? And, how will Canada cope if it finds that – in fact – the world needs *less* Canada in trade terms? This paper considers how the new protectionism being pursued by the US and China is likely to impact the middle power's trade policies. Specifically, it examines the intersections of the *Made in China 2025* and *America First* campaigns with Canada's own priorities for economic growth in innovation.

Following a brief outline of each campaign, a sectoral comparison is undertaken of the American and Chinese strategies as they relate to Canada's. The paper then explores whether these protectionist agendas – combined with ongoing geopolitical tensions – create an impetus to revisit Canada's trade priorities. Specifically, it examines how these changing geopolitical dynamics might impact the federal government's policy shift away from prioritizing agricultural and natural resources exports in favour of greater services trade. It then considers whether the intersection of geopolitics with rising demand for natural resources such as rare earth minerals used in twenty-first century innovations such as cell phones and electric vehicles could further influence Canada's public policy choices in this area. Finally, the paper considers the implications if governments, consumers and corporations around the world begin pricing labour and environmental practices, national security, human rights and robust democratic institutions into supply chain sourcing practices for such products. Under such conditions, Canada could potentially resurge as a model economy for twenty-first century natural resource extraction and regain its comparative advantage in these sectors. Through this exploration, the paper argues that new trade barriers erected by both the US and China, while deeply threatening, also create an opportunity for Canada to rediscover and revalue the country's vast natural resource potential as a key component of a resilient twenty-first century economy.

Chinese and American economic nationalism and Canadian trade

Made in China 2025

Though President Trump is largely credited with starting the trade war with China, it was arguably the resurgence of economic nationalist policies advanced by China over the decade prior that helped spark it. Launched in 2015, *Made in China 2025* seeks to increase Chinese wealth and prosperity by moving up the value chain and away from low-wage manufacturing that helped China attain its current international position. The plan includes explicit targets of increasing Chinese self-sufficiency in high-value sectors such as pharmaceuticals, automotive, aerospace, IT and robotics to 40% by 2020 and 70% by 2025. China's plans to achieve these targets involve direct subsidies, support for state-owned enterprises, intellectual property theft and forced technology transfer from international companies seeking to operate in China (Doran, 2019; McBride & Chatzky, 2019).

Not surprisingly, the US, EU and others have interpreted the strategy as discriminatory and undermining global trade rules. The US also regards China's strategy as a national security threat, and has blocked several Chinese-owned takeovers of American high-tech firms (Office of the United States Trade Representative, 2019). In response, China grew quiet about promoting the strategy internationally as the China–US trade war intensified in 2018. Due to the opacity of Chinese government operations, it is difficult to assess actual government investments in the *Made in China 2025* plan or its relative success to date. Nevertheless, by all indications, China continues to pursue the plan aggressively.

America First

Meanwhile, the US has undertaken its own form of economic nationalism under Trump via a three-pillared strategy comprised of *America First*, promoting new areas of the economy, and combatting non-market practices by trade partners including China. Similar to China, the US seeks to privilege domestic made products and innovations through reshoring of investment and tariff protection from imports. The US has focused primarily on leveling the playing field for American investment and competition through low taxes and deregulation, pursuing trade agreements that favour US interests, and aggressively pursuing trade enforcement against countries it deems to be undermining American interests (Office of the United States Trade Representative, 2019).

Yet, the US is also focused on supporting domestic innovation and leadership in specific sectors including commercial space exploration, advanced innovation in artificial intelligence and quantum computing, and internet-enabled technologies in manufacturing and transportation. It is prioritizing stronger protections for US innovations through stricter intellectual property laws and enforcement, and by supporting the development of new encryption technologies (US Department of Commerce, 2018).

Canada's strategy: picking export winners

As a trade reliant country with a small internal market, Canada has not sought to advance economic nationalism under the current or previous government. Instead, it has sought to reinforce the importance of an open and liberal trading order with the US, China and others. However, Canada has also had a long history of protecting and promoting key industrial sectors, such as automotive and aerospace in the twentieth century. The Trudeau government launched a billion dollar "Superclusters" industrial strategy in Budget 2017 to promote new areas of innovation through public-private partnerships in key sectors. The plan is focused on growing exports, creating more high-growth Canadian businesses, and regional job creation (Government of Canada, 2017). The five superclusters are (1) digital technology; (2) protein industries; (3) advanced manufacturing; (4) AI-powered supply chains; and (5) oceans.

How the strategies fit together

Each country's strategy is quite different and was generated independently; certainly, they reflect no coordination. China has articulated its mercantilist intentions to become self-sufficient and reduce reliance on imports, while the US has focused more on rebalancing its trade interests with other countries through tariffs and trade remedies. As the only country of the three that will rely heavily on exports for success, Canada must pay close attention to overlaps between its plans and those of the other two countries. The very general sectors identified above are insufficient for such comparisons. Thus, we have undertaken an analysis of the three major sets of policy documents that outline each country's strategy: the US Commerce Strategy for 2018–2022; China's unofficial list of *Made in China 2025* target sectors[1]; and Canada's supercluster documents (Government of Canada, 2017; Innovation, Science and Economic Development [ISED] Canada, 2019a, 2019c, 2019d, 2019e, 2019f; US–China Business Council, n.d.; US Department of Commerce, 2018).

Table 1 identifies seven categories of industrial leadership listed by the three strategies and indicates which countries have prioritized each sub-sector therein. The first three categories reflect the major industries focused on by all three countries: Information

Table 1. Comparing Canada's superclusters to *America First* and *Made in China 2025*.

Sector	Canada	USA	China
Information Technology			
AI	✓	✓	✓
Quantum Computing	✓	✓	✓
Augmented Reality	✓		
Data Analytics	✓		
Internet of Things (IoT)	✓	✓	✓
Digital Commerce		✓	
Radio Spectrum		✓	
Digital Industries	✓		
Wireless Tech		✓	✓
Robotics	✓		✓
Transportation			
Autonomous Vehicles	✓	✓	✓
High-Tech Shipping			✓
Modern Rail Technology			✓
Marine Vehicles	✓	✓	
New Energy Vehicles			✓
Advanced Manufacturing			
Automation/Robotics	✓		✓
High-tech Shipping			✓
"New materials"			✓
IoT Goods	✓	✓	
3D printing	✓		
Ocean Equipment	✓	✓	✓
Power/Energy Generation Equipment	✓		✓
Space and Aerospace			
Space Commerce		✓	
Space Transportation			✓
Aerospace and Space Tech			✓
Agrifood			
Agriculture Technology	✓		✓
Plant Protein Industries	✓		
Sustainable Foods	✓		
Medicine			
Medical Tech	✓		✓
Biopharmaceutical	✓		✓
Natural Resources			
Marine Conservation		✓	
Commercial Fisheries		✓	
Timber Harvesting	✓		

Technology, Transportation, and Advanced Manufacturing. The "Information Technology" category includes any form of investment in software, microchip, and circuitry development. Robotics is cross-listed under "Advanced Manufacturing" and it differentiates investment on the development of robotics technology from automation and use in manufacturing. "Transportation" focuses on transportation for ground, air, or marine use. "Advanced Manufacturing" captures innovative technology used in production. There are four other, smaller categories: "Space and Aerospace" focuses only on space investments; "Agri-food" covers farming and food production; "Medicine" lists medical technology investments; and "Natural Resources" covers all extraction and natural resource priorities. If industrial policies aim to support two different categories, they are listed twice. For example, High-Tech shipping is listed under both "Transportation" where the focus is on the development of new technologies to facilitate shipping, and also under "Advanced Manufacturing" as China aims to manufacture new equipment for this purpose as well.

It is evident that all three countries are heavily focused on overlapping sectors in the first three categories. All are actively pursuing innovation in artificial intelligence, quantum computing, and the Internet of Things. Similarly, all are seeking to transform innovations in these areas into advanced manufacturing and transportation solutions, such as autonomous vehicles and robotics. There is less overlap in the four remaining categories. For example, the US has articulated a clear and narrow focus on commercial space exploration and aquaculture, while Canada has identified a unique focus on plant proteins and sustainable food, and China is concentrating on various types of transportation.

Canada's role if everything is *Made in China* or by *America First*

As Table 1 highlights, Canada faces considerable competition in a number of areas. However, unlike other countries, Canada's strategy is more heavily dependent on exports for success. The industries identified in Table 1 remain sufficiently general to enable all three countries to innovate independently and be competitive. Yet, if the US and China achieve economies of scale in the same sub-sectors as Canada, it will be more difficult for Canada to compete. Combined with deliberate mercantilist intentions by the Chinese and Americans to prioritize domestic production over foreign imports, Canada must be strategic about its goals and pay close attention to future export markets for its innovations.

Of course, Canada can seek to export its innovations to other countries beyond its two largest trade partners. Europe and most other markets in Asia (except India which has its own nationalist "Make in India" campaign) have not developed similar nationalist economic strategies and many rely on trade for economic growth themselves. However, every major industrialized country is seeking to innovate in many of the same industries as the three countries analyzed here: what will make Canada's exports more attractive than their own products, or those of the US or China? As outlined previously, the gravity model implies that intra-regional trade will only grow in the future, and Canada could find itself isolated in America's orbit with high labour and production costs rendering it globally uncompetitive.

Certainly, there is also no guarantee that the mercantilist tendencies displayed by the US and China will continue unabated. Many hold out hope that the US will again embrace its role as leader of the liberal international order following Trump's departure from office, though it seems unlikely. *America First* rhetoric is now pervasive in the US, including among Democrats. Even if the US becomes a more constructive international partner again, there is little indication that China will pursue more liberalized trade in the coming decades (Doran, 2019; Ikenberry, 2018). Yet, it is clear that the very large internal markets of both countries mean they will not be forced to change course. In such a context, Canada cannot continue to behave as if the old trade rules will protect its economic interests in the new global economy.

Old sectors, new opportunities

To be clear, Canada cannot and should not follow the same road of protectionism as China and the US, for reasons previously outlined. If Canada's experience with Smoot-Hawley tariffs in the 1930s offers any lessons, protectionist contagion is unlikely to succeed

(McDonald, O'Brien, & Callahan, 1997). Yet, Canada's inability to rely on traditional allies and trade dynamics of the twentieth century means Canada must also be smarter moving forward.

In addition to considering its trade diversification strategy more critically with respect to trade partners, Canada must also consider the influence of foreign mercantilism on its trade product diversification strategy. It is particularly important to reflect on the federal government's shift toward prioritizing growth in services exports, and whether this will continue to be the best strategy in a more protectionist global context.

As has been well documented, Canadian trade depended on agriculture and natural resource exports during the first half of the twentieth century. Wheat, fish, forestry, energy and mining products have long accounted for the lion's share of Canada's exports (Baldwin & Macdonald, 2012). Recognizing the risks associated with deep dependence on "staples" for export (Innis, 1995), Canada sought to increase its manufacturing base and the contribution of services to the economy. For example, by the second half of the century, services growth contributed enormously to Canada's gross domestic product (GDP). However, despite this domestic shift in economic activity, services have not contributed nearly as much to Canada's exports (Global Affairs Canada, 2019). For example, although services accounted for more than 70% of Canadian GDP in 2018, they represented only 20% of Canadian exports. In fact, Canada lags behind its international counterparts in services exports (Global Affairs Canada, 2019). Instead, as outlined in Table 2, Canada's top 10 exports remain dominated by natural resources, agricultural products, vehicles and car parts.

Policymakers and macroeconomic planners have suggested that Canada must focus on further diversifying its export products through a greater focus on services. Laudable though the goal may be, the feasibility of growth in Canadian services exports is unclear. Within the categories of services that are easily tradeable through digitalization, Canada has already demonstrated tremendous growth; for example, ICT services exports such as telecom, and computer services rose 30% in the decade between 2006 and 2016, while potentially ICT-enabled services such as finance, insurance services and consulting increased 67% (GAC, 2019). But growth in other categories of services may be less likely. For example, equipment repair and hospitality services rely on close geographic proximity between labour and service delivery. Other sectors are heavily protected

Table 2. Canada's top exports by major category.

	GOODS		SERVICES	
Rank	Product	Value B$	Product	Value B$
1	Energy	111.1	Travel	28.5
2	Vehicles & parts	90.5	Transportation	17.8
3	Consumer goods	66.6	Prof. & mgmt. consulting	16.0
4	Metal and minerals	64.6	Technical, trade, and other	12.9
5	Forestry, building, packaging	47.2	Telecom and IT	11.5
6	Agri-food and fish	39.7	Financial services	10.8
7	Chemicals, plastics, rubber	35.0	Research & development	6.8
8	Electronics	29.4	Intellectual property	6.3
9	Aircraft and transp. Equip	25.8	Maintenance & repair	2.5
10	Metal ores and minerals	19.3	Personal, cultural, recreational	3.5
Total		585.3		120.7

Source data: Global Affairs Canada, State of Trade 2019.

by legislative and regulatory barriers that render them largely non-tradeable. Thus, while increasing Canadian services exports is a desirable goal that should be pursued, they are unlikely to supplant merchandise exports in the medium or even long-term.

In addition, as the analysis in Table 1 demonstrates, many of Canada's sectoral priorities for economic growth under its Supercluster plan are common to the protectionist industrial plans of the US and China. For reasons already outlined, Canada's ability to compete and succeed in export growth in those sectors is far from certain.

It would appear then, that the current global context requires some critical reflection of Canada's strategy, beyond simply the need to export beyond the US and China. Canada's product diversification plans – as they intersect with these geopolitical challenges – also require attention. In particular, we ask whether Canada should also reconsider the value brought by its rich endowment of natural resources to this new global trading context. The remainder of the paper is devoted to outlining an agenda for reconsidering – and potentially revaluing – the importance of Canadian natural resources extraction and exports as a key component of a globally resilient economy in the future.

There are many possible examples in the natural resources sector to highlight the kinds of issues that will become more salient in future debates about globalization and trade, and Canada's role in it. As the largest category of exports, Canadian energy offers a natural choice. However, the challenges of bringing Canadian oil and gas products to international markets are so mired in domestic political, environmental, regional and social conflicts around pipeline and regulatory approvals that it seems necessary for Canadians to first settle those disputes at home before the country can be regarded as a reliable and attractive energy supplier to other markets.

Therefore, we consider instead the export potential offered by rare earth elements to highlight the issues involved, though we also could have considered forestry as our example. Canada is one of the world's largest exporters of mineral products and its companies are among the largest foreign investors in global mineral exploration (NRCan, 2019). Global demand for minerals continue to rise, and there has been explosive growth in demand for rare earth elements following the discovery of purposes for use in "green" technologies such as electric vehicle batteries and wind turbines. As energy alternatives to fossil fuels continue to be pursued, demand for rare earths will only grow. To be clear, the extraction of these resources also have negative environmental impacts, yet many green technologies rely on this extraction for product inputs for the time being (World Bank Group, 2017).

Currently, most rare earths are sourced outside of Canada. More than half the world's supply of cobalt (required for lithium-ion batteries) is sourced in the Democratic Republic of Congo (DRC), often in mines owned or controlled by Chinese firms. Although Canada, Australia, the US and other countries also have deposits of rare earths, there are few mines operating outside of China (Haque, Hughes, Lim, & Vernon, 2014). In addition to geological factors associated with the deposits themselves, extraction in countries such as Canada is not cost-effective, in part due to high labour costs and environmental standards.

Yet, opportunities abound for Canada in the new geopolitical climate. For example, national security concerns now pervade innovation in the telecom and ICT sector, leading to increasing scrutiny of the supply chains used in ubiquitous technologies such as cell phones. At present, rare earth elements used in the production of cell phones are sourced almost exclusively by China, which is also where most cell phones are assembled. China is home to 55% of the world's rare earth deposits and it controls 95% of global supply chains for them (Gulley, McCullough, & Shedd, 2019; Haque et al., 2014). Yet, the US is actively seeking to reduce its reliance on Chinese-sourced components and assembled phones for reasons of national security, creating opportunities for markets to relocate elsewhere.

The US and others worry that China will retaliate by seeking to monopolize key inputs such as cobalt to limit foreign competitors' access in the future (Gulley et al., 2019). China has already demonstrated its willingness to do so. For instance, between 2010 and 2012, China placed strict export quotas on rare earths, reducing global supply and dramatically increasing prices. However, the US, Canada and others challenged China at the WTO and won, leading China to drop the quotas and stabilizing prices again (Haque et al., 2014; WTO, 2015).

The anticipated weaponization of supply chains in this manner is generating new interest in Canadian deposits and their potential viability. Although Canadian cobalt mining today is modest by international standards, accounting for only 5% of annual production, it has the world's seventh largest reserves (World Bank Group, 2017). For example, mining in the aptly named Cobalt, Ontario ceased operation in the 1980s prior to the development of technologies that would create demand for it (Baldwin & Macdonald, 2012; Haque et al., 2014). Rising global demand for cobalt has renewed interest in mineral exploration in the area (Bochove, 2017).

Other environmental and labour arguments can be made for considering Canada as a source of rare earths in the future. Horrendous environmental standards and working conditions – including child and modern slavery – in cobalt mines operating in the DRC are raising alarm for companies concerned about corporate responsibility of their supply chains (Amnesty International, 2017; Kara, 2018).

As Canada considers the intersections of *Made in China 2025* with its own natural resource potential, Canada's endowment of rare earth minerals may again become profitable given the range of new "costs" associated, from national security issues to export controls. And while the labour and environmental records of Canadian mining companies operating overseas are decidedly mixed, the Canadian government has made serious efforts over the last decade to improve corporate social responsibility among Canadian mining companies operating internationally (Idemudia & Kwakyewah, 2018; NRCan, 2014). In addition, companies operating within Canada must adhere to much higher labour and environmental standards in mineral processing methods and working conditions than many other countries where these inputs are sourced.

Thus, in considering the opportunities created for Canadian natural resources in this new geopolitical context, its policymakers have a natural opportunity to revisit some basic questions about foreign competition, safeguards, and alliances in its approach to trade policy for the sector. For example, should Canada take steps to safeguard access to its rare earth minerals and associated product supply chains for use by its own manufacturers and for reliable trade partners such as the European Union (EU), NAFTA countries, and Trans-Pacific Partnership member states such as Japan? If so, how would the country go about it, while ensuring compliance with WTO rules?

In addition, Canada has long struggled to attract sufficient capital investment and has opened up its mining sector to foreign investment – including to Chinese state-owned enterprises (Powell, 2019). Should Canadian policymakers revisit those rules enshrined in the *Investment Canada Act* to take a more hawkish position on the US–China rivalry and Canada's place in it? For example, in 2012, the Harper government issued a set of clarifying principles around foreign investments by state-owned enterprises in order to give greater flexibility and discretion to the Canadian government over such matters. Some of those reforms have been overturned by the Trudeau government in order to increase transparency and ease foreign investment – especially by China (ISED Canada, 2016, 2019b, 2019g). Given the tremendous geopolitical shifts and souring relations with China and, to a lesser extent the US, since the Trudeau government made those adjustments, perhaps the *Act* should be reviewed yet again with a more critical eye.

Canada would not be alone in considering these questions. For example, both the US and the European Union (EU) are systematically considering the geopolitical risks to supply chains of the new economy as it relates to their own countries' economic and security interests. In December 2017, President Trump signed an executive order to reduce American dependence on foreign sources of critical minerals, including some rare earths, on grounds of national security and economic independence (White House, 2017). Meanwhile, the EU has studied the implications of insufficient access to critical minerals – including due to geopolitical concerns – and actively monitors supply options for the EU (European Commission, 2017).

Even so, if Canada sought to reduce foreign investment in strategic sectors such as rare earths, it would be difficult to unwind many existing contracts with international parties while complying with various trade pacts and WTO rules. In addition, if Canada sought to limit foreign investments in the sector by state-owned enterprises from countries such as China on national security grounds, it is not clear that other firms (Canadian or other foreign) would be waiting in the wings to invest. Canada has already experienced a decade of declining foreign direct investment (Statistics Canada, 2019). Current debates about pipelines and federal approval of the Teck Frontier project in Alberta (led by a Canadian mining company) serve to further erode the confidence of foreign investors that Canadian governments are committed to natural resource extraction (Bishop, 2020).

These are just some of the questions that Canada must consider as it grapples with the aggressively protectionist dynamics of the US–China rivalry. The issues go far beyond simply finding new markets beyond the US and China to export Canadian products. Instead, this example highlights the ways in which Canada must also reconsider its own industrial strategy and reflect on how economic nationalism elsewhere is likely to influence the kinds of products that Canada can be expected to export competitively in the future. At the same time, the complexity of implementing such geostrategic policies quickly becomes apparent if policymakers choose to pursue such a direction for exports.

Conclusion: Hewers of wood and drawers of water 2.0?

By even suggesting that Canadian policymakers need to reconsider the place of natural resource extraction and exports in the country's future trade strategy, this paper has taken a risk. Since Canadian finance minister Sir Samuel Leonard Tilley first told Parliament in 1879 that "the time has arrived when we are to decide whether we will be simply hewers of wood and drawers of water" (Library of Parliament, 1879, p. 429), successive governments have sought to reduce Canada's reliance on natural resources for economic prosperity. Since then, the "hewers of wood and drawers of water" reference has been used to reflect negatively on Canada's extractive economy. For example, in a 2016 speech, Bank of Canada Governor Stephen Poloz commented, "we have been much more than a nation of hewers of wood and drawers of water for a long time, yet the cliché lives on" (Bank of Canada, 2016).

Some of these concerns are warranted. There is evidence that Canada's economy has been vulnerable to economic shocks due to overreliance on oil and gas and the boom and bust cycles inherent in that dependence. "Staples" theory, first articulated by Harold Innis in 1930, described Canada's early reliance on raw material exports as creating a path dependence that made other sectors subservient to ongoing extraction (Halseth, Ryser, Markey, & Martin, 2014; Innis, 1995). Similarly, "Dutch disease" suggests that a resource boom in a single sector such as oil leads to declines of other trade-sensitive sectors such as manufacturing, due to linkages between high commodity prices and subsequent monetary policy decisions (The Economist, 1977).

Thus, the continuing push to diversify away from natural resources exports stems from a legitimate desire to insulate the country's economy from overreliance on energy exports, Canada's largest export category at 22% (Global Affairs Canada, 2019). Certainly, the paper is in no way suggesting a return to natural resource extraction at the expense of exporting by other sectors. Instead, the paper has attempted to outline reasons why serious economic threats external to Canada – primarily the China–US rivalry that has given rise to economic nationalism and the emergence of trade alliances among countries within their orbits – pose far greater challenges to Canada's trade strategy than its reliance on natural resources exports. In addition, the paper has sought to establish how increasing demand for "safe", "ethical", and "green" commodities that are extracted sustainably could increase Canadian competitiveness and reduce volatility in global markets for these products. This could potentially break the path dependence described by Innis (1995) in the original staples theory which regarded all commodities of the same type as essentially interchangeable. In this way, further diversifying its export product mix may help Canada weather the global protectionist storms more resiliently.

Furthermore, while Canada may have suffered from elements of Dutch Disease in the past, the evidence is mixed (Dubé & Polèse, 2015; Shakeri, Leonard, & Gray, 2015). In addition, the Bank of Canada among others have suggested that the label is generally a poor fit for explaining the country's economic challenges. For example, Canada's economy is already diversified – both within the natural resources sector and beyond – and the decline in manufacturing both predated Canada's oil boom and has occurred across the world's advanced economies (Baldwin & Macdonald, 2012; Bank of Canada, 2012; Canadian Chamber of Commerce, 2012).

Yet, Canada also need not pit the "old economy" (natural resource extraction) and the "new economy" (innovation and knowledge) against one another in a false dichotomy over which policy makers must choose. There is already ample evidence to demonstrate how countries such as Canada have continuously used technological innovation to improve farming and mining processes and reduce occupational hazards and environmental damage (Baldwin & Macdonald, 2012). Looking ahead, Canada can make great strides in using its Supercluster digital strategy to leverage better and cleaner extraction processes, as has already been articulated through plans to use internet-based technology to improve timber harvesting methods (Government of Canada, 2017).

Instead, the paper argues that the same blinders placed on Canadians toward the natural resources sector by Tilley in the nineteenth century continue to colour perceptions about new opportunities created for the sector today. Largely overlooked in Tilley's original remark about "hewers of wood" was the broader context for his speech. Its purpose was to introduce Tilley's tariff bill, which outlined the promotion of manufacturing and industrial development in Canada by protecting those sectors from American domination through high tariffs on competing imports. Following the famous phrase from his speech, Tilley went on to say,

> [W]e will inaugurate a policy that will, by its provisions, say to the industries of the country, we will give you sufficient protection; we will give you a market for what you can produce; we will say that while our neighbours build up a Chinese wall, we will impose a reasonable duty on their products coming into this country (Library of Parliament, 1879, p. 129).

Thus, Tilley's focus at the time was to implement protectionist tariffs to pursue Canada's own nationalist economic goals, not to eliminate its reliance on natural resources. Canada's historical record since has demonstrated that protectionism is neither feasible nor desirable for the trade dependent nation. While Canada should certainly promote its services and innovation exports, it must also recognize that competition is fierce and much larger economies are also playing. It must continue to open up new trade opportunities where they exist. As competition for finite natural resources grows, the economic value of these commodities also increases. Farmable land, clean water, rare earth elements, and renewable resources such as trees and fish may become the precious currencies of the future. Revaluing Canada's unique natural resources assets can be an important part of Canada's new trade diversification strategy: perhaps the time has arrived for Canada to study and develop a new Hewers of Wood, Drawers of Water 2.0 strategy.

Note

1. Although China has produced some general documents in English, detailed documents are no longer available in English. Therefore, we have relied on unofficial versions of those documents prepared by the US-China Business Council.

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